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The Business of Trading
 Based on Ch. 4, Buying and Selling Softwood
 Lumber and Panels by Dave Leckey

In today's lecture

- 1) Mechanics of daily business:
 - How an ordinary trading day might go.
 - Issues that could occur in the process of putting an order together.
 - Different types of orders that buyers and sellers use
- 2) Philosophy of daily business:
 - Role of speculating on the three sectors of the wholesale business.
 - Five primary services that someone in every transaction has to provide and get paid for.
 - How inventory considerations affect buying/selling decisions.

Mechanics of Daily Business

Where to find clients to whom you can sell to or to buy from
Industry Directories.
 lumber or panels.

- Information from Credit Agencies.
- Commercial Sellers of lists.
- Telephone Books and Yellow Pages.
- Grading Agency Membership Lists.
- Old accounts and suppliers.
- Internet.

Mechanics of Daily Business

Generating Accounts

- Developing accounts takes a lot of time, willingness to learn, and a great deal of patience, so be prepared for rejection.
 - 50 to 60 "cold" calls / day
 - Make one good account per week.
 - At the end of the year you'll have 52 good accounts.

Communication Modes

- Use of e-mail has become widespread, but for wholesale lumber trades phone and fax still most common.
- Once an ongoing business relationship between a buyer and seller has been established, electronic orders become more common.

Mechanics of Daily Business

- Before you begin making calls...
- 1. Obtain a handful of faxed or e-mailed mill offerings
- 2. Check the independent weekly pricing guides such as Random Lengths. This will give you an understanding of what market prices have been over the past week, for a wide variety of lumber/ panel items.
 - None of these reports forecast prices, nor do they claim to reflect up-to-minute price levels.

Now you are ready to start prospecting.

Mechanics of Daily Business: Making Calls

- Ask the person answering the phone for the name of the person who buys the products you are selling.
- May I speak to them?
- When he/she picks up , you introduce your company and then yourself. (name of the company might spark interest)

Within the first 30 seconds you want to ask this buyer the two initial questions of any lumber/panel cold call.

1. **Do they buy the *items* you are selling?**
2. **Do they buy them in the *quantities* you are selling?**

A "no" answer to either one of the questions tells you that you shouldn't waste any more of your time, or the prospects time.
If they say "yes" to *items* but "no" to the *quantities*, try to find out who their supplier is.
Ask for referrals in the area who might be interested.

Mechanics of Daily Business:

Create the customer profile

- If the person responds with "yes" to both questions, your next question should be... "Great, what are you buying today?"
- Gather information about the customer's immediate needs
- Create a customer profile for this account.
 - a systematic listing of all the information you know about a customer.

Subject to Prior Sale

- If the sale is not finalized then and there.
- State that the materials you were discussing are being offered "*subject to prior sale*".
- Ask for the best time to contact them to finalize the sale.
- "subject to prior sale" or "sub prior" means that you cannot guarantee that when you talk again, the material would still be available, or that the price would still be the same.
- Whenever something is offered over the phone, or on a fax or e-mail, it should be understood that the offer is only good as long as you are communicating with that person.

Finalizing a Sale

- Needs the product but doesn't like the price, ask for a "firm offer" at the acceptable price and shipping time.
- Confirm all other order specifications:
 - ☉ tally, grade, mill, etc.
- If they agree, ask for an hour to return the call to verify your shipment time and to get approval on the pricing.

Finalizing the Sale

- The order is now firm subject to credit check.
- Call back your customer:
 - Get the purchase order number
 - Get a trade fax sheet for credit check
- Set up the time for your next phone call, thank them for the order and hang up.
- **CONGRATULATIONS, THIS IS YOUR FIRST ORDER**
- Now Finalize the paperwork
- Confirm that the order shipped, on time, right tally

Philosophy of Daily Business: How mills differentiate their products

- To have repeat customers each mill has to differentiate itself and its products from all its competitors.
 - Mill sales force (knowledge, personality)
 - Quality and Appearance
- Note: Both "above grade" and "at grade" sell, but to different buyers

One order at a time

Order-at-a-time, Every Day Business:

Since wood products business changes from one hour to the next, the bulk of the business is done on the telephone, one order at a time.

The business that is not done on a day-to-day basis is done on the basis of

When quantities, tallies and shipment destinations are fixed, contract business can be a far more efficient way to do business than by chasing orders one at a time.

What was available this morning at a certain price may not be available this afternoon. Or, if it is still available, it might be at a different price, or for a different shipping time, or from a different mill location, or with a different tally.

Contract Business:

- long-term contracts:
 - agreed-upon volumes
 - shipped each week or month
 - to specified locations.
- Pricing for contract orders - “price at time of shipment” (PTS).
 - “market price” – Random Lengths, Crows weekly pricing journals

Sectors of lumber and panel industry

The First Sector

Consists of mills, remanufacturers, and treating plants. These companies sell truckloads and carloads of lumber and panels and lumber-like materials.

The Third Sector

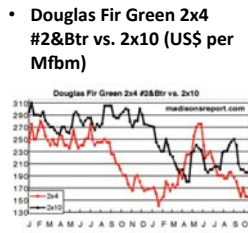
Retailers and end-users. Independent retail lumber yards, big-box home centers, manufacturing or construction companies. Buy full or partial truck loads, and if they are going to resell, in unit or per-piece quantities.

The Second Sector

Resellers – office wholesalers, reload centers, co-ops, and national and regional distribution operations. Buy large volumes provide services (finance, delivery).

Decisionmaking for: Mills, Remanufacturers, and Treaters

1. How much to pay for raw material (logs, lumber)?
2. What investments to make to improve production?
3. What items to produce?
4. How much inventory to carry?
5. How much of an “order file” to build? (list of sold but unshipped loads a mill has committed to)



Decisionmaking for: Wholesalers and Distribution Yards

- Back-to-Back Orders: When the purchase of the product and the sale of the product is done simultaneously.
 - Everything is fixed at the time of order: price, tally, shipment time, terms, *everything*.
 - Profit on this transaction is locked in.
 - Risk is mitigated - market’s movement has no effect on profit of order.

Decisionmaking for:
Wholesalers and Distribution Yards

- **Long Orders:** Buy lumber for later sale.
 - Buy price, shipment time, tally, grade, species, is known.
 - Selling terms are unknown.
- Long orders are usually done for two reasons.
 1. Betting that price is going to rise.
 2. They have customers who want to be able to purchase lumber/panel for immediate delivery.

Decisionmaking for:
Wholesalers and Distribution Yards

- Short orders are also done for two reasons
 1. Betting the price will fall.
 2. They need to sell for extended shipment (contractor looking to lock in a price for a job next year) or sell specialty items not needed immediately and not available on the current market.

Retailers and End-Users

- How much inventory to carry?
- The third sector is least-willing to speculate with large lumber positions.
- Interested in fast inventory turnover.



Services

1. Marketing
2. Transportation
3. Credit
4. Claims
5. Speculation

Services: Marketing

- Tradeoff - Do I want the lowest price or do I want to minimize my buying effort.
- Best Price - Make a list of many different suppliers. Call every supplier and find out what they have for sale and choose low price - TIME CONSUMING
- Call 3 or 4 of your favorite suppliers. Make the best decision and have the rest of the morning to do other things. = TIME EFFICIENT

Services: Transportation

- Sellers can quote "Delivered Price" - includes the cost of freight.
 - Saves buyer time and effort
 - Seller believes they can make money on it
 - Used as a tool to control Seller's inventory.
- Buyer can calculate the various freight options. Gets FOB Mill price from mill.
 - Time consuming and requires specialized knowledge
 - Maybe find lower freight cost = lower delivered cost.

Services: Credit

- Lumber is traded "on account" with some kind of credit terms.
 - When do you pay? Sooner or later
 - Do you get a discount?
- Buy on extended terms (pay later).
 - Supplier "finances" your inventory, but this is risky!
 - Reduces the buyers' bank line of credit needs (lowers cost)
 - But, to compensate for higher risk, you are likely to pay a higher price.
- Buy on short credit terms.
 - You are likely to pay a little less for it, often with a discount!
 - But, your cash flow gets stretched out. Meaning a larger line of credit from the bank, which in turn costs money in financing charges.

Services: Claims

- Claims: damage, under tally, below grade, late delivery...
- First sector businesses don't have the staff or the interest in spending time on any but medium or large claims.
 - Cheaper price, less attention to small to medium claims.
- Second sector businesses often settle problems like this for customers, allowing them to deduct the value of the damage from their invoices.
 - ⊙ Maybe a slightly higher price, but more service and satisfaction, on small to medium claims

Services: Speculation

- Who assumes the risk for changes in prices?
- Conservative approach:
 - buy in small quantities,
 - for prompt shipment,
 - from a seller carrying an inventory nearby.
 - Downside – you pay a cost “premium”, your supplier is assuming the risk of changing prices
- Speculate:
 - Try to “time” the market, buy low then sell high.
 - Buy large quantities at current mill price and put into inventory.
 - Pay lowest initial price, but you assume risk of falling prices.
 - One can win big or lose big using this strategy.

Inventory Control

Just-In-Time (JIT) Buying

- This is the now-widely used practice of buying material only as it is needed.
- JIT buying can allow businesses to reduce their inventory overhead and allow them to be more flexible to the needs of their customers.

Inventory Control

Vendor-Managed Inventory (VMI)

- For the vendor, a VMI arrangement means having a guaranteed home for a volume of his product, knowing that he will get a fairly current market price for it.
- For the customer, a VMI arrangement means he has a guaranteed inventory that isn't paid for until it is sold, and that it is priced at the market.

Inventory Control

- Electronic Data Interface (EDI)- is the means by which supplier and customers are connected electronically, that the invoicing and payment are done almost instantaneously. This is more of a cost reduction feature than an inventory control feature. This system makes billing and automatic ordering procedure much easier and faster.

Keywords

- Grading Agency
- Random Lengths
- Cold call
- Prospecting
- Subject to Prior Sale
- Tally
- Firm offer
- Credit check
- Contract business
- PTS
- Market Price
- Back-to-back order
- Long order
- Short order
- FOB Mill
- FOB Destination
- Credit
- Claims
- Speculation
- JIT
- VMI
- EDI